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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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JEFF HATCH-MILLER, Chairman
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IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR A
HEARING TO DETERMINE THE FAIR VALUE
OF THE UTILITY PROPERTY OF THE
COMPANY FOR RATEMAKING PURPOSES, TO
FIX A JUST AND REASONABLE RATE OF
RETURN THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP SUCH
RETURN, AND TO AMEND DECISION NO.
67744.

DOCKET NO. E-01345A-05-0816

IN THE MATTER OF THE INQUIRY INTO THE
FREQUENCY OF UNPLANNED OUTAGES
DURING 2005 AT PALO VERDE NUCLEAR
GENERATING STATION, THE CAUSES OF THE
OUTAGES, THE PROCUREMENT OF
REPLACEMENT POWER AND THE IMPACT OF
THE OUTAGES ON ARIZONA PUBLIC
SERVICE COMPANY'S CUSTOMERS.

DOCKET NO. E-01345A-05-0826

IN THE MATTER OF THE AUDIT OF THE FUEL
AND PURCHASED POWER PRACTICES AND
COSTS OF THE ARIZONA PUBLIC SERVICE
COMPANY.

DOCKET NO. E-01345A-05-0827

STAFF'S NOTICE OF FILING

Staff of the Arizona Corporation Commission hereby provides notice of filing the Testimony
Summaries of Erinn Andreasen and Jerry D. Anderson in the above-referenced matter.

RESPECTFULLY SUBMITTED this 14th day of November, 2006.

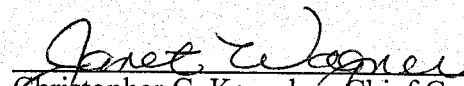
Arizona Corporation Commission

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SUMMARY OF TESTIMONY
STAFF WITNESS
JERRY D. ANDERSON

ARIZONA PUBLIC SERVICE COMPANY
DOCKET NO. E-01345A-05-0816

Direct Testimony:

Staff's direct testimony addresses two main topics. First, it addresses Demand-Side Management ("DSM") at the Arizona Public Service Company ("APS" or the "Company"). The testimony discusses test year and current DSM programs at APS and how DSM programs are funded. Secondly, the testimony discusses the System Benefits Charge in this case and its components. Staff provides a summary of the amount of system benefits requested by APS and the amount recommended by Staff for each component.

Staff recommends that APS' proposed net lost revenue adjustments for DSM programs be disallowed and that the Company should be rewarded for DSM savings through a performance incentive. Staff does not oppose APS' proposal to accrue interest on the Demand-Side Management Adjustment Charge account balance. Staff recommends that the total of System Benefits should be \$49,191,690. The System Benefits Charge components, and the amount of System Benefits requested by APS and recommended by Staff for each component, are summarized in the following table:

System Benefits Components	APS Proposed	Staff Recommended
Demand-Side Management Programs	\$10,000,000	\$10,000,000
Low Income Programs (E-3/E-4 Rates)	\$4,222,330	\$4,372,330
Renewables	\$6,000,000	\$6,000,000
Palo Verde Power Plant Decommissioning	\$18,901,703	\$18,901,703
Independent Spent Fuel Storage Installation (ISFSI)	<u>\$10,177,404</u>	<u>\$9,917,657</u>
Total System Benefits	\$49,301,437	\$49,191,690

Surrebuttal Testimony:

Staff's surrebuttal testimony adds clarification that any APS under-spending for DSM below the required \$30 million in base rates during the period 2005 through 2007 will result in the amount of the under-spending being applied as a credit to the DSM adjustor account. Staff also comments on SWEEP's proposal to implement an Energy Efficiency Standard ("EES") in which Staff agrees with APS that the EES is aggressive and possibly premature, but believes it is useful for planning for future energy efficiency.

SUMMARY OF TESTIMONY
STAFF WITNESS
JERRY D. ANDERSON

ARIZONA PUBLIC SERVICE COMPANY
DOCKET NO. E-01345A-05-0816

Staff recommends a time limitation be set on the use of measured energy savings values from sources other than APS' own Measurement, Evaluation, and Research ("MER") contractor in the calculation of the DSM Performance Incentive. Staff recommends the actual savings measured by the MER be used in those calculations beginning no later than July 1, 2007. Staff also contends that energy savings resulting from DSM measures are not known and measurable and adds that argument to its position that APS' proposed revenue adjustment for DSM-related reduced revenues should be disallowed.

**EXECUTIVE SUMMARY
ARIZONA PUBLIC SERVICE COMPANY
DOCKET NO. E-01345A-05-0816**

Direct Testimony:

Ms. Andreasen's direct testimony recommends the following:

1. Staff recommends higher than average increases for rate schedules E-34 and E-35 based on the fact that these categories are under performing relative to the rest of the general service class and the system-average rate of return.
2. Staff recommends that the cost-of-service category E-32 (1,000 or greater kW) receive a greater increase than E-32 cost-of-service categories (0-20 kW), (21-100 kW), (101-400 kW), and (401-999 kW).
3. Staff recommends that rate schedule E-20 receive a much smaller than average increase due to the fact that its return is much greater than the system average and exceeds the returns for the other rate categories in the cost-of-service study.
4. Staff recommends that APS provide a 12-month interim period for customer transition so that residential customers on E-10 and EC-1 will have additional time to fully evaluate their alternative rate options. Staff also recommends that APS continue customer outreach efforts to educate consumers about their rate options during the 12-month interim period.
5. Staff recommends that E-10 and EC-1 not be cancelled until the end of the 12-month interim period, which should provide customers with adequate time to consider alternative rate options.
6. Staff recommends that APS provide customers on E-21, E-22, E-23, and E-24 a six-month interim period for customer transition so that customers would be provided adequate time to consider other rate options and allow APS time to switch out meters where required. Staff also recommends that APS propose an interim rate increase to apply during the interim period for rates E-21, E-22, E-23, and E-24 that is greater than the average increase for the general service class.
7. Staff recommends that E-21, E-22, E-23, and E-24 not be cancelled until the end of the six-month interim period, which should provide customers with time to consider alternative rate options.
8. Staff recommends that rate designs for residential rates ET-2 and ECT-2 remain revenue neutral when compared to rates adopted for ET-1 and ECT-2 respectively.

9. Staff recommends that the proposed demand rates for E-32 not be raised significantly over levels proposed by APS.
10. Staff recommends that in the next rate case filed with the Commission, APS propose to replace general service rate schedule E-32 with alternate general service schedules that divide E-32 usage into small, medium, and large categories or other appropriate division.
11. Staff recommends that the System Benefit Charge for all applicable APS rate schedules be set at \$.001850 per kWh.
12. Staff recommends that the after-hours charge on Schedule 1 for other services remain at \$75.00 per trip.
13. Staff recommends that APS include a definition for Multi-Unit Residential High-Rise Developments on Schedule 1.
14. Staff recommends that APS should add clarifying language to Schedule 3 to specify that the "construction cost" refers to the "backbone infrastructure cost."
15. Staff recommends that under sections titled Master Planned Community Developments and Residential Multi-Family Developments of Schedule 3, APS clarify that allowances will be credited to the applicant.
16. Staff recommends that APS amend its definition for "Residential Homebuilder Subdivision" on Schedule 3 to be consistent with R14-2-201(34). Staff also recommends that APS alphabetize the definitions included on Schedule 3.
17. Staff recommends that APS add language to each section of Schedule 3 clarifying the applicable timeframes for field audits and refundable advances.
18. Staff recommends that APS should file a revised Schedule 3 including Staff's recommendations above in its rebuttal testimony. In its rebuttal testimony, APS should provide a copy of its proposed Schedule 3 redlined against the current version attached to my testimony as Exhibit B
19. Staff recommends that the Commission open a generic docket where parties can provide feedback and the Commission can evaluate the adoption of hook-up fees for the energy industry.
20. Staff recommends that APS establish a forum to explore issues associated with demand-response and load-management opportunities for its service territory.
21. Staff recommends that APS conduct a study that identifies which types of demand-response and load-management programs would be most beneficial to APS' system. In the study, APS should demonstrate why certain programs are

more beneficial than others and identify which customer segments would be most likely to respond to such programs. The study should rely on a cost-benefit analysis based on the Societal Cost Test and be filed with the Commission within eight months of approval of a decision in this matter. In addition, APS should be required to file for Commission approval of one or more cost-effective demand-response or load-management programs that APS believes would be most beneficial to its system and its ratepayers, and to file it concurrently with the filing the study referred to above.

Surrebuttal Testimony:

Ms. Andreasen's surrebuttal testimony recommends the rate design to be adopted by the Commission for ET-2 incorporate off-peak winter rates that are less than off-peak summer rates. Ms. Andreasen's testimony also addresses Staff's recommended changes to Schedule 1 and Schedule 3.